THE SURPRISING SOURCE OF FINANCIAL STRESS IN CANADA

*Longitudinal Analysis of 11-years of Canadian Payroll Association Data
Shows Blue Monday — January 20, 2020 — Does Not Discriminate by Age or Salary*

As holiday bills come due, resolutions to "save more" are forgotten and Blue Monday — the most depressing day of the year — arrives, new research from the Canadian Payroll Association and the Western-Laurier Financial Data Analytics Laboratory (The Western-Laurier Lab) reveals that, for working Canadians, financial wellness is a result of more than the size of their paycheque.[i]

Despite what may seem obvious or logical, how much one earns does not necessarily correlate to financial wellness. The study, published as *Learning about Financial Well-Being in Canada*, found that 20 per cent of those with a household income of at least $150,000 were still financially stressed. By comparison, roughly 50 per cent of those with household incomes below $50,000 were found to be financially stressed.

Similarly, preconceptions about millennials struggling to make their way in the world and feeling financial stress as a consequence proved to be inaccurate. Fifty per cent of those who are financially stressed are over the age of 40 — 25 per cent of whom have reached the half-century mark.

What the research does in fact reveal is that, more than age or income, it's actually the ability of working Canadians to deal with brief financial setbacks— like missing a paycheque — and their savings habits that most affect financial stress.

"This research shows that Blue Monday is much more than a marketing gimmick," says Peter Tzanetakis, President of the Canadian Payroll Association. "Whether it's in the spirit of the season or not, when we spend beyond our means, financial stress follows. Payroll can help. Not only by ensuring every employee is paid accurately and on time, but by leading the implementation of *Pay Yourself First* programs to help employees put aside what they can every time they are paid."

A BETTER UNDERSTANDING OF THE FINANCIAL WELLNESS OF WORKING CANADIANS

The disconnect between income and financial stress was uncovered by the Western-Laurier Lab using 11-years of Canadian Payroll Association National Payroll Week Survey data — totaling more than 35,000 unique responses.

This wealth of data was analyzed using an advanced algorithm-based methodology known as Cluster Analysis, to gain a new understanding of the data by arranging respondents into distinct groups based on their similarity to one another and differences from all other groups.

What the research found is that working Canadians belong to oneofthree groups: those who are **financially stressed**, **financially coping**, or **financially comfortable**. Approximately one-third of all respondents fall into each cluster.

Those in the **financially comfortable** cluster are characterized by their shared ability to manage missing a paycheque, their tendency to save money, and prioritization of work-life balance over salary.

Working Canadians who are **financially stressed**, on the other hand, tend to exhibit a combination of the following characteristics:

- Find it difficult to manage a brief financial setback;
- Save little to none of their income;
- Place greater emphasis on salary;
- Spend as much or more than their net pay;
- Are the most heavily indebted – with the highest likelihood to have car loans, student loans, outstanding balances on their line of credit, and credit card debt; and
- Report that their debt load increased over the previous year.

Working Canadians who are **financially coping** fall directly between the binary opposed groups described above.

"What makes Cluster Analysis particularly compelling is the fact that it removes any preconceived ideas or unconscious biases that might impact results and, instead, takes only the similarity of respondent answers to the survey into account," explains Dr. Adam Metzler, Associate Professor of Mathematics at Wilfrid Laurier University and co-author of the study. "Because of its longevity, the consistency of questions asked each year, and the number of unique respondents the Canadian Payroll Association data was particularly well suited for Cluster Analysis. The academic-industry partnership between our Fields Institute Centre for Quantitative Analysis and Modelling's Financial Data Analytics lab and the Canadian Payroll Association is what allowed us to achieve a research outcome that edifies all Canadians."

PAYROLL IS READY TO HELP IMPROVE FINANCIAL WELLNESS

"Employers need to pay attention to these findings because, as we know, financial stress costs the Canadian economy nearly $16 billion in lost productivity each year," adds Tzanetakis.[ii] "Employers can no longer assume that financial wellbeing is tied to salary or any generations' predispositions. Instead, they need to take action."

Payroll professionals have the strategic knowledge and technical expertise to help. In particular, by leading the development, implementation and management of a *Pay Yourself First* program for employees to proactively save money every time they are paid.

Pay Yourself First programs, which at present are currently only offered by 55 per cent of employers in Canada, empower payroll to work with staff to arrange for a portion of their pay to be automatically directed into a savings account.[ii] As opposed to encouraging employees to transfer funds themselves, automating the process results in better money management, a higher rate of savings, and a steady accumulation of retirement funds.

From coast-to-coast, workers have also expressed the need for more financial education in the workplace. According to the Canadian Payroll Association's *2019 National Payroll Week Survey of Working Canadians*, 79 per cent are interested in financial education offered by their employers on topics like saving for the future, and better budgeting.[ii]

To download the *Learning about Financial Well-Being in Canada study,* visit www.payroll.ca.

ABOUT THE CANADIAN PAYROLL ASSOCIATION

Canada's 1.5 million employers rely on payroll practitioners to ensure the timely and accurate annual payment of $1.02 trillion in wages and taxable benefits, and $345 billion in statutory remittances while complying with more than 200 federal and provincial regulatory requirements. As the authoritative source of Canadian payroll compliance knowledge, the Association promotes payroll compliance through advocacy and education. For more information on the Association, visit payroll.ca.

ABOUT THE WESTERN-LAURIER FINANCIAL DATA ANALYTICS LABORATORY

Financial data analytics is a mission-critical tool throughout the finance, banking, and insurance communities. Financial institutions require data analytics skills in verticals ranging from financial planning to risk management, to automatic loan issuance, to fraud detection and the marketing of their services. The Fields CQAM Lab at Western University Canada and Wilfrid Laurier University provides in-depth training in financial data analysis, state-of-art techniques for parameter estimation, and model uncertainties jointly with other Fields CQAM labs. Visit www.cqam.ca/financial-data-analytics-lab to learn more.

To learn more about Fields CQAM, visit cqam.ca.

To learn more about Fields Institute, visit www.fields.utoronto.ca.

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[i] *Recognized annually on the third Monday in January, Blue Monday is known as "the most depressing day of the year" because it's typically when holiday credit card bills come due.*

[ii] *A total of 4,285 employees from across Canada, and from a wide range of industry sectors, responded to an online research survey between April 24th, 2019 and June 18th, 2019, using a convenience sampling methodology. The survey was developed by the Canadian Payroll Association and conducted by Framework Partners. The survey is consistent with a margin of error of plus or minus 1.3% 19 times out of 20, but as a non-probabilistic methodology was used, a definitive margin of error cannot be expressed.*